

## Management's Discussion and Analysis

As management of the Commonwealth, we offer readers of the Commonwealth's financial statements this narrative overview and analysis of the activities of the Commonwealth for the fiscal year ended June 30, 2001. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Because the Commonwealth is implementing new reporting standards for fiscal 2002, with significant changes in content and structure, much of the information is not comparable to prior years. However, in future years, comparisons will be more meaningful and will go farther in explaining the Commonwealth's financial position and results of operations.

### Financial Highlights – Primary Commonwealth Government

#### *Government – Wide Highlights*

- ◆ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2001 by \$812 million. Of this amount, “unrestricted net assets” is reported as a negative \$2.8 billion, largely due to large long-term liabilities for school construction grants and claims and judgements of which there are no offsetting assets. The investment in capital assets, net of related debt is also negative due to debt issued for the Central Artery / Tunnel project that will eventually not become the Commonwealth's asset. There are also large restricted net assets for capital projects, unemployment benefits and debt retirement. Unrestricted net assets represent the amount available to be used to meet the Commonwealth's ongoing obligations to its citizens and creditors.
- ◆ **Changes in Net Assets** – The Commonwealth's net assets increased by nearly \$672 million in fiscal 2001. Net assets of governmental activities increased by \$580 million, while net assets of the business – type activities showed an increase of \$91 million. Net expenses of governmental activities before general revenues were over \$15.5 billion, while general revenue from governmental activities was nearly \$16.1 billion.

#### *Fund Highlights*

- ◆ **Governmental Funds – Fund Balances** – As of the close of fiscal year 2001, the Commonwealth's governmental funds reported a combined ending fund balance of over \$4.6 billion after reclassing the Central Artery Owner Controlled Insurance Program to a fiduciary activity from 2000. This was an increase of \$1.4 billion from fiscal 2000. Of the \$4.3 billion:

- \$97 million, deficit, net, represents the “unreserved and undesignated fund balances” largely in the highway capital projects fund. The general fund has a positive unreserved fund balance of \$794 million.
- Reserves are placed totaling over \$1.9 billion for continuing appropriations, tax reduction and stabilization within the general fund.
- Of the \$1.9 billion in reserves, \$290 million is reserved for continuing appropriations in the local aid and other governmental funds.
- \$109 million is reserved for retirement of indebtedness (debt defeasance.)
- Finally, nearly \$1.8 billion is reserved for capital projects, largely connected with the Central Artery / Tunnel (CA/T) project.

The unreserved and undesignated deficit balance of nearly \$97 million is roughly 0.3% of the \$30.3 billion of governmental fund expenditures for 2001 before other financing uses.

- ◆ The Commonwealth’s long – term debt position increased by over \$2.3 billion this year (13.2%) also largely due to bond issuance related to the Central Artery / Tunnel project and long-term school construction grants payable to municipalities. The Central Artery / Tunnel Project payable to other component units stands at \$8.3 billion of construction in progress that has not been transferred.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Commonwealth’s basic financial statements. The Commonwealth’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves.

*Government – wide financial statements.* The **government-wide financial statements** present the reader with a broad overview of the Commonwealth’s finances in a manner similar to a private sector business. The statements include:

The <i>Statement of Net Assets</i>	This statement presents information on all of the Commonwealth’s assets and liabilities, with the difference between them reported as <b>net assets</b> . Increases or decreases in net assets over time are a useful indicator of whether the financial position of the government is improving or deteriorating.
The <i>Statement of Activities</i>	This statement presents information showing how the Commonwealth’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, <i>regardless of when the cash</i>

	<i>flow occurs.</i> Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows of future fiscal years. A prime example of this is accruals for workers compensation, compensated sick and vacation leave and interest costs.
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Both of the statements have separate sections for three different types of Commonwealth programs or activities. These activities are:

<i>Governmental Activities</i>	These activities are fundamentally supported by taxes and federal grants. Most services normally associated with the Commonwealth fall under this category, including education, health and human services, public safety and transportation and construction, among others.
<i>Business – Type Activities</i>	These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business – type activities for the Commonwealth include the unemployment compensation fund and the schools of higher education.
<i>Discretely Presented Component Units</i>	These are legally separate operations for which the Commonwealth appoints a majority of their governing board. These operations may or may not be fiscally dependent on the Commonwealth. They also <i>do not</i> provide services entirely or almost entirely to the Commonwealth. Examples of these entities include our reported major component units: <ul style="list-style-type: none"> <li>◆ The Massachusetts Turnpike Authority</li> <li>◆ The Massachusetts Bay Transportation Authority</li> <li>◆ The Massachusetts Water Pollution Abatement Trust</li> </ul>

As of June 30, 2001, there were 29 component units of the Commonwealth. One component unit, Mass Interaction (formerly known as Massachusetts Corporation for Educational Technology or MCET) is in the process of liquidation. Other examples of component units range from regional transit authorities to the Commonwealth Zoological Corporation. Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the Commonwealth's component units are found in the notes to the financial statements.

The government – wide financial statements can be found immediately following this discussion and analysis.

## Fund Financial Statements and Major Component Unit Financial Statements

*Funds* are groups of major, related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Their financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government – wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

<i>Governmental Funds</i>	These funds are used to account for the same functions that are reported as governmental activities in the government – wide financial statements. Governmental fund financial statements focus on the <b>near-term inflows and outflows of spendable resources</b> as well as <b>balances of spendable resources</b> available at the end of the fiscal year. This information is useful in evaluating the Commonwealth’s near – term ability to finance programs and services.
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Because the focus of governmental funds is narrower than that of the government – wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Commonwealth’s near – term financing decisions. Both the governmental funds balance sheet and the related statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. That reconciliation is presented immediately following the statement of revenues, expenditures and changes in fund balance.

In this section, the **General, Local aid, Lottery, Debt Service, Highway Capital Projects and the Central Artery statewide road and bridge infrastructure funds** are presented as major funds for presentation purposes. In addition, the teacher, principal, superintendent quality endowment fund is presented as a major permanent fund. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

<i>Proprietary Funds</i>	The Commonwealth maintains two different types of proprietary funds. <i>Enterprise funds</i> are used to report the same
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	functions presented as <i>business – type activities</i> in the government – wide financial statements. The Commonwealth uses enterprise funds to account for its <b>unemployment compensation fund</b> . The <b>schools of higher education</b> (presented in the aggregate by University, State College and Community Colleges) are also business – type activities.
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Proprietary funds provide the same type of information as the government – wide financial statements, only in more detail. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

<i>Fiduciary Funds</i>	Fiduciary funds are used to account for resources held for the benefit of parties outside the Commonwealth. These funds are not reflected in the government – wide financial statements, because the resources of these funds are not available to support the Commonwealth’s programs and services. These funds use the accrual basis of accounting, which is similar to what is used in the proprietary funds.
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The Commonwealth’s fiduciary funds are the Pension Trust Funds, the External Investment Trust, Private Purpose Funds and Agency funds. The pension trust funds are the transactions and net assets held in trust for the benefit of Commonwealth employees and teachers. Retirement, disability and death benefits are paid out of these funds. The external investment trust accounts for the pooled cash held by the Treasurer – Receiver General for the benefit of various municipalities and other governments of the Commonwealth. Private Purpose funds are trusts where the Commonwealth on behalf of others holds principal that cannot be spent. Agency funds act as conduits for which the Commonwealth is an agent for others. These fund statements can be found following the proprietary fund statements.

<i>Component Unit Financial Statements</i>	These are operations for which the Commonwealth has financial accountability, but are independent of the core operations of the Commonwealth. They operate similar to private – sector businesses. The government – wide financial statements present information for the component units in a single column of the statement of net assets. Some information on the statement of changes in net assets is aggregated for component units as well. The combining statements of net assets, combining statement of changes in net assets and combining condensed statement of cash flows provides detail for each major component unit and the non-major component units in the aggregate. Individual non-major component unit detail, can be found in the combining financial statements described below. These combining statements can be found immediately after the fiduciary fund financial statements.
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## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the date provided in the government – wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

### **Other Supplementary Information**

The aforementioned combining statements are all presented as other supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

## **GOVERNMENT – WIDE FINANCIAL ANALYSIS**

### **Net Assets**

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of nearly \$812 million at the end of 2001. This was due to the Commonwealth bonding for the Central Artery / Tunnel Project capital costs. Pursuant to the Metropolitan Highway System legislation from 1997, the project will transfer largely to the Massachusetts Turnpike Authority, a component unit of the Commonwealth, upon each segment's completion. In effect, the assets will largely be with the Turnpike Authority, while a large portion of the liabilities will be with the Commonwealth.

\$18.2 billion of the Commonwealth's net assets reflects the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. Statement 34 requires the addition of the value of investment in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets to be portrayed for the first time. The net asset balance reflects the net book value of these assets, less. As these assets provide services to citizens, they are not available for future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

As can plainly be seen below, the bulk of the Commonwealth's net assets lie in its capital assets and long – term liabilities. The Commonwealth's current assets were \$9.7 billion,

while its current liabilities were nearly \$6.0 billion. As unrestricted net assets were in deficit by \$2.8 billion, it must be inferred that whatever current liabilities are not paid out of current assets, including cash, cash equivalents and short-term investments, draws from restricted net assets may be needed to pay for them. Restricted net assets noted above represents resources that are subject to external constraints on resources. The remaining *unrestricted net assets* are negative. Had they been positive, they would then be used to meet the government's ongoing obligations to citizens and creditors. Ostensibly, operational draws turn unrestricted net assets negative. The Commonwealth has huge local aid, capital projects and school construction grants programs that result in obligations, but no assets for the Commonwealth. The school construction grants program (known as school building assistance) alone has a \$5.4 billion liability in total. An additional \$2.3 billion is restricted for unemployment compensation. Another \$1.8 billion are bond proceeds and other funds restricted for ongoing capital projects that will not result in Commonwealth assets. Of the unrestricted net asset deficit balance, \$1.7 billion is invested in the Commonwealth's Stabilization Fund.

**Net Assets as of June 30, 2001**

*(in millions of dollars)*

	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Total Primary Government</u></b>
Current and other non-current assets	\$ 8,860	\$ 3,746	\$ 12,606
Capital assets	<u>17,106</u>	<u>1,229</u>	<u>18,335</u>
<b>Total assets</b>	<b><u>25,966</u></b>	<b><u>4,975</u></b>	<b><u>30,941</u></b>
Long-term liabilities	25,042	751	25,793
Other liabilities	<u>5,491</u>	<u>470</u>	<u>5,961</u>
<b>Total liabilities</b>	<b><u>30,533</u></b>	<b><u>1,221</u></b>	<b><u>31,754</u></b>
Net assets:			
Invested in capital assets, net of related debt	(3,698)	900	(2,798)
Restricted	2,130	2,616	4,746
Unrestricted	<u>(2,999)</u>	<u>238</u>	<u>(2,761)</u>
<b>Total net assets</b>	<b><u>\$ (4,567)</u></b>	<b><u>\$ 3,754</u></b>	<b><u>\$ (813)</u></b>

**Changes in Net Assets**

The Commonwealth's net assets increased by \$580 million or 11.2%. Approximately \$16.1 billion of the Commonwealth's total revenue came from taxes, while \$12.5 billion resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid.

The Commonwealth's expenses cover a wide range of services. The largest expenses were for Medicaid, direct local aid, health and human services and higher, primary and secondary education. In 2001, governmental activities expenses, exceeded program

revenues, resulting in the use of \$15.5 billion in general revenues, largely from taxes. However, revenues from business-type activities in 2001 also exceeded expenses by over \$91 million, largely due to nearly \$1.1 billion of transfers in the form of higher education subsidies from governmental activities.

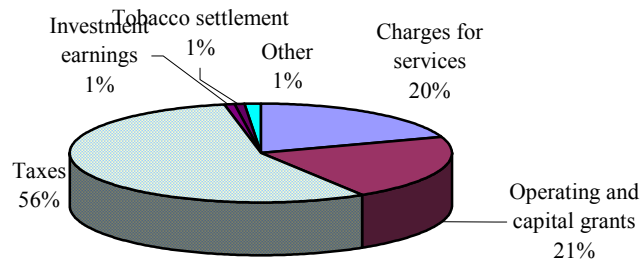
The negative amount of total primary government transfers reflects \$755 million in transfers to subsidize component unit operations. These include debt service subsidies to the Water Pollution Abatement Trust and the Convention Center Authority, as well as transfers of dedicated sales tax revenue to the Massachusetts Bay Transportation Authority.

As depicted in the table and the graphic on the next few pages, governmental revenues largely come from taxes.

Changes in Net Assets as of June 30, 2001 (in millions of dollars)				
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Percentage</u>
<b>Revenues</b>				
Program Revenues	\$ 12,554	\$ 1,177	\$ 13,731	42%
General revenues				
Taxes	17,007	883	17,890	55%
Investment earnings	247	159	406	1%
Tobacco settlement	242	-	242	1%
Other	456	60	516	2%
<b>Total Revenues</b>	<b>30,506</b>	<b>2,279</b>	<b>32,785</b>	<b>100%</b>
<b>Expenses</b>				
Medicaid	5,175	-	5,175	17%
Direct local aid	5,046	-	5,046	16%
Transportation and construction	1,272	-	1,272	4%
Health and human services	4,207	-	4,207	13%
Lottery	3,201	-	3,201	10%
Higher education	-	2,281	2,281	7%
Primary and secondary education	2,041	-	2,041	7%
General Government	839	-	839	3%
Public safety	1,169	-	1,169	4%
Public assistance	991	-	991	3%
Unemployment compensation	-	973	973	3%
Interest	849	-	849	3%
Group health insurance	641	-	641	2%
Other	2,672	-	2,672	9%
<b>Total Expenses</b>	<b>28,103</b>	<b>3,254</b>	<b>31,357</b>	<b>100%</b>
<b>Excess (deficiency) before transfers</b>	<b>2,403</b>	<b>(975)</b>	<b>1,428</b>	
Transfers	(1,822)	1,066	-	
<b>Increase (decrease) in net assets</b>	<b>581</b>	<b>91</b>	<b>1,428</b>	
Net assets - beginning - restated	(5,148)	3,663	5,169	
Net assets - ending	<b>(4,567)</b>	<b>3,754</b>	<b>(813)</b>	



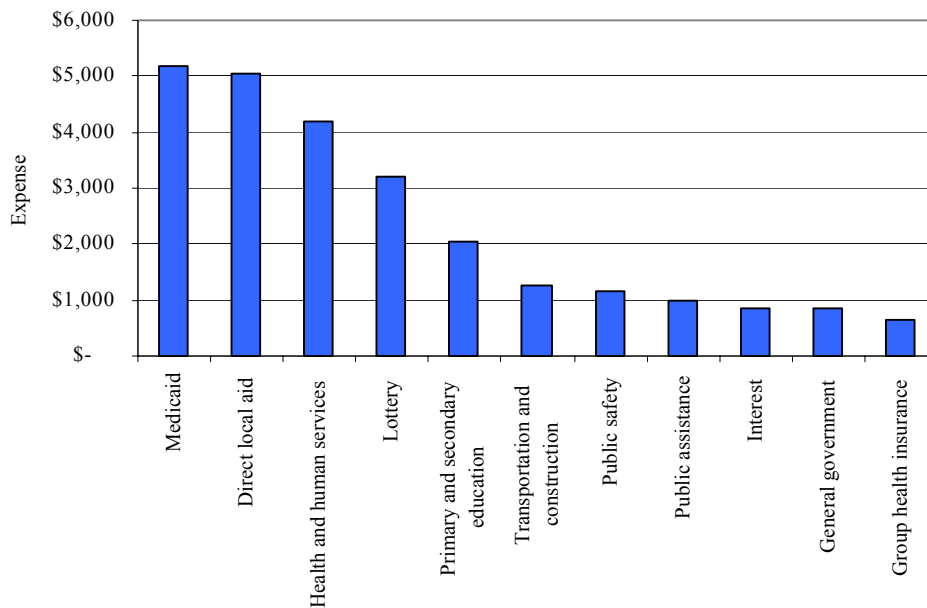
**Revenues - Governmental Activities  
Fiscal Year Ending June 30, 2001**



Tax revenues are largely in the form of income taxes. Of the \$17 billion in tax revenue within governmental activities, \$10 billion was from income taxation, \$3.7 billion from sales, \$1.1 billion from corporations, \$661 million from motor fuels and \$1.5 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies. The largest capital grants are for transportation, including federal grants for the Central Artery / Tunnel project. Finally, Lottery revenues encompass approximately 2/3 the charges for services.

Nearly 18.4% of all the Commonwealth's governmental activities expenses fund Medicaid. However, it must be noted that over half of the Medicaid expenses are subsidized in the form of federal grants. These subsidies are noted above in the "charges for services" segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth. According to the Department of Revenue, Division of Local Services, over 58% of these funds are earmarked for public education. Some of these funds are immediately assessed and transferred back to the Commonwealth, for other purposes. The largest assessment that transfers back to the Commonwealth is in the form of operating funds due to the Massachusetts Bay Transportation Authority (MBTA) from municipalities in their district. The MBTA's assessment is recorded as other revenue. Below is a chart that details some of the larger governmental expenses of the Commonwealth.

**Selected Expenses - Governmental Activities  
Fiscal Year Ending June 30, 2001**



### **Business – Type Activities**

The business type activities increased the Commonwealth's net assets by over \$91 million. This resulted from a \$75 million increase in the Commonwealth's Unemployment Compensation Fund and a \$15.7 million in the net assets of the schools of higher education.

## **FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS**

As noted earlier, the Commonwealth uses fund accounting to ensure and demonstrate compliance with finance – related legal requirements.

### **Governmental Funds**

As of the end of fiscal 2001, the Commonwealth's governmental funds reported combined ending fund balances of \$4.6 billion, an increase of \$1.4 billion from the previous year. However, of the \$4.3 billion, the following amounts are reserved or committed:

	<i>(millions)</i>
Reserved for Continuing Appropriations – to liquidate contracts and purchase orders from the prior fiscal year	\$290
Reserved for tax reduction	34
Reserved for stabilization	1,715
Reserved for Retirement of Indebtedness	109
Reserved for Central Artery Workers' Compensation	729
Reserved for Capital Projects	<u>1,773</u>
Total Reserved Amounts	<u>\$4,649</u>

The amounts reserved for capital projects represent projects that are in process, but have been bonded for in advance. As project costs are expended, the reserve will decrease. The bulk of these funds relate to the Central Artery / Tunnel project. The remaining \$345 million of the governmental fund balance is an unreserved and undesignated deficit.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the unreserved fund balance of the general fund was over \$2.7 billion. Of this amount, over \$1.7 billion was set aside administratively in the Commonwealth's Stabilization and Tax Reduction funds. In fiscal 2002, both funds have been used to help soften the blow of a slowing economy. The administration and the Legislature have wisely taken a balanced approach using \$806 million from these reserves combined with necessary reductions in service levels throughout the Commonwealth. Another \$187 million was also reserved for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year.

The fund balance of the general fund rose by over \$945 million during fiscal 2001. This is largely due to a sharply lower operating transfers. In fiscal 2000, funds that were in deficit were made whole in a one time operating transfer of over \$2.9 billion.

### **Proprietary Funds**

The Commonwealth's proprietary funds provide the same type of information found in the government – wide financial statements, but in more detail.

As discussed in the business – type activities above, the business type activities increased the Commonwealth's net assets by over \$91 million. This resulted from a \$80 million increase in the Commonwealth's Unemployment Compensation Fund and a \$11 million increase in the net assets of the schools of higher education.

### **BUDGETARY HIGHLIGHTS**

Differences between the original budget and final budget amount to over \$1.6 billion summarized as follows:

- ◆ A supplemental appropriation for transitional assistance and snow and ice removal.
- ◆ An additional supplemental appropriation for various health and human service programs, additional snow and ice removal and transitional assistance, sheriff's costs, underground fuel storage tank removal and heightened energy costs. The supplement also included nearly \$52 million in advance lottery payments to municipalities. And
- ◆ A final supplemental appropriation for a wide – ranging set of governmental programs including grants to community health centers, tropical storms Allison and Floyd emergency management cost reimbursements and \$20 million in funding for the Health Insurance Portability and Accountability Act fund. The act also set aside over \$579 million from revenues in a transitional escrow fund to be used in fiscal 2002.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2001, amounts to \$25.6 billion, net of accumulated depreciation of \$7.4 billion, leaving a net book value of \$18.2 billion. With the implementation of GASB 34, 35, 37 and 38 as of July 1, 2001 (fiscal 2002,) infrastructure assets will be reported on the Commonwealth's statement of net assets. Of the investment in capital assets noted above though, \$8.3 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project. An additional \$2 billion has already been transferred to these Authorities of completed portions of the project. Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. The Central Artery / Tunnel project is recorded as construction in process with segregated disclosure in footnote 6. As aspects of the project are completed, assets are transferred to the Massachusetts Turnpike Authority, a component unit of the Commonwealth, at the cost of those assets. As such, the Commonwealth has recorded an offsetting liability for the portion of the project that has not been transferred to the Turnpike authority.

Before the implementation of infrastructure, the total increase in the Commonwealth's investment in capital assets for 2001 was nearly \$95.7 million. An additional \$2.9 million, net, was transferred from construction in process to fixed assets. Additional information on the Commonwealth's capital assets can be found in the footnotes to the financial statements of this report.

### **Debt Administration**

The Commonwealth issues short-term and long-term debt that is primarily general obligation in form. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. The

Commonwealth's outstanding debt increased by over \$1.6 billion in fiscal 2001, largely for bonds issued related to the Central Artery / Tunnel project. In summary:

- ◆ Over \$1.7 billion in general obligation debt was issued.
- ◆ Over \$600 million in debt issued in anticipation of grants to be received was issued in the final series of grant anticipation note authorizations.
- ◆ Nearly \$965 million in refunding bonds were issued. However, over \$1.5 billion in debt was either defeased or refunded, along with related discounts and premiums. Finally,
- ◆ Nearly \$128 million in bond principal was repaid.

### **Bond Ratings**

As of June 30, 2001, the Commonwealth's bond ratings for its uninsured general obligations were AA-, AA2 and AA- from Fitch, Inc., Moody's Investors Service and Standard & Poor's Ratings Services, respectively.

### **Limitations on Debt Issuance**

The Massachusetts General Laws establish limits on the amount of governmental direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for fiscal year 2001 was approximately \$11,076,483,000. Outstanding governmental debt subject to the limit at June 30, 2001 was approximately \$10,279,959,000. The limit increases 5% per year.

Additional information on the Commonwealth's short and long-term debt obligations can be found in the footnotes to the financial statements of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

As of June 30, 2001, the unemployment rate in the Commonwealth stood at 3.4%. The rate had been as low as 2.3% during the fiscal year. However, since June 30, 2001, the rate has dramatically risen. The Commonwealth's unemployment rate nearly doubled in a year to 4.2% as of December 2001. We are still well below the national rate of 5.8% though.

Due to the recession and the events of September 11<sup>th</sup>, tax revenues have dropped sharply in the Commonwealth. The largest drops have come from income taxes, which were staggeringly down 24% in January 2002 from the previous January.

To help deal with this economic downturn, the Commonwealth has drawn \$806 million from its reserves, transitioned nearly \$580 million of aforementioned 2001 revenues into 2002 and implemented an early retirement incentive program. The Governor has also exercised her powers under Section 9C of Chapter 29 of the General Laws, reducing

allotments for programs and services. Schools of higher education have also increased their fees. The 2002 general appropriation act, approved in December 2001, also provides for transfer of 50% of the tobacco settlement funds received in fiscal 2002 to be expended for budgetary health and human service costs.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9<sup>th</sup> Floor, Boston, Massachusetts, 02108. You may also download this report at:  
<http://www.state.ma.us/osc/Reports/reports.htm>.